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February 13, 2015

Stanley Claussen
United FCS Board of Director
1030 70th St NE
Montevideo, MN 56265-5043

Mr. Barry Mardock
Deputy Director, Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

RE: Proposed Capital Regulations for the Farm Credit System

Dear Mr. Mardock:

Thank you for the opportunity to comment on Farm Credit Administration's (FCA's) proposed capital rule. In general, I think adopting Basel III standards for the Farm Credit System (FCS) will help fulfill our mission by improving our financial strength and enhancing our access to funding, especially in periods of market stress. I appreciate FCA's efforts to adapt the rules to the FCS's cooperative structure, but some areas need to change to keep us competitive with other financial companies and maintain our strong cooperative roots. Below are some areas of concern and suggested improvements to the proposed regulation:

- Eliminate the shareholder vote on capitalization bylaws changes.

This vote puts a Farm Credit and its member-customers in an impossible situation. If we do not approve the bylaws changes, our cooperative faces capital challenges. If we approve the bylaws changes, we fail to operate as a cooperative should. I appreciate FCA's desire to make sure member-owners receive clear communications about our capital plan features. But rather than require bylaws changes, FCA could rely on board policies, loan documents or capital plans to provide the proper information to members.

- Eliminate the proposed revolvement period for Common Equity Tier 1 (CET1) or allow normal revolving features on loan-based cooperative equity plans.

There should not be a 10-year revolvement for individual shares. The other capital control features in place make this too harsh. The rule essentially makes cooperative shares permanent. Members expect stock retirement under certain conditions, and this rule would not meet their expectations.

- Eliminate the 10-year revolvement cycles for association investments in their funding bank to qualify for CET1.

Requiring a 10-year revolvement cycle for association-held bank equities is unnecessary. Association capital investments are generally understood as permanent capital contributions to the Bank, which are then available to absorb losses. The law requires affiliated associations to buy stock in and obtain funding from a Farm Credit Bank, which means they need to maintain a permanent investment in the bank. Banks need the ability to adjust these investments to keep them equitable among associations. It will not work for each association's individual bank shares to be outstanding for 10-years to qualify as CET1. This requirement means that the Bank will be unable to function as a cooperative or equalize capital investments. I ask that FCA provide flexibility for banks to equalize capital investments among affiliated associations without impacting the CET1 treatment.

- Revise the proposed "safe harbor" provision that authorizes limited distributions, including stock retirements, without FCA prior approval.

FCA should follow the same standards as the foreign regulators of cooperatives and allow up to a 2% reduction in CET1, as long as capital ratios remain above the conservation buffer. In addition, the "haircut deduction" for early distributions is unfair and should be eliminated. This can be better handled through FCA examinations.

- Eliminate or change the unallocated retained earnings (URE) limit in the proposed Tier 1 leverage requirement.

This proposal makes it seem that UREs are higher quality capital than CET1. Basel III does not require this for safety and soundness, and neither should FCA. FCA should authorize FCS institutions' boards to manage their CET1, including URE. If FCA sees a need for a URE standard, it should follow the current requirements and calculate the URE ratio on a risk-adjusted basis.

- Reduce the proposed Tier 1 leverage requirement to 4%.

From my perspective, the 5% standard is too high. There is no research or history to suggest the FCS standard should be higher than the 4% standard for all other financial institutions. I am concerned this will result in higher borrowing costs to our member-customers and interfere with our mission. Also, it may give the impression to potential borrowers or investors that FCS cooperatives are more risky than other lenders.

- Maintain the 50% and 20% risk-weight treatment of rural electric cooperative assets

Electric cooperatives have lower risk characteristics, as FCA has recognized in the past, based on: (1) the financial strength and stability of the underlying member systems; (2) the ability to set user rates with limited oversight; and (3) exclusive service territories. These unique qualities protect rural electric cooperatives from many of the credit-related risks of other utility providers. I encourage FCA to continue the 50% and 20% risk-weight treatment so the FCS can continue to fulfill its mission to finance the rural electric industry.

- Clarify risk weighting for High Volatility Commercial Real Estate

FCA should clarify what will be considered "high volatility commercial real estate" that will have to be risk weighted at 150%. High-value land used for production agriculture, agri-business construction projects and rural infrastructure projects should not be included in this category.

- Eliminate the "unfunded commitment" amount for FCS Banks

Amounts available to associations on their FCS bank direct loans should not require another layer of capital. The close relationship between banks and their affiliated associations is very different than between an association and its borrowers. The association maintains capital to provide for growth, and the GFA protects against unexpected funding demands from an association to a Bank.

I am confident that these changes would make the proposed capital rule workable and effective from a safety and soundness perspective. It would also put FCS on a more even footing under Basel III. Most importantly, as a director responsible to protect my cooperative, I ask FCA to make sure that the FCS can function properly with its long-standing cooperative principles for the benefit of its member-customers, as Congress intended. This cooperative structure sets us apart from other financial institutions, and it has given us the ability to fulfill our mission for nearly 100 years.

I appreciate the opportunity to comment on this proposed rule and FCA's willingness to consider my feedback.

Sincerely,

Stanley Claussen

Stanley Claussen
Board of Director
United FCS